

VZCZCXRO2504  
RR RUEHCHI RUEHDT RUEHHM RUEHNH  
DE RUEHKL #0930/01 1420947  
ZNY CCCCC ZZH  
R 220947Z MAY 06  
FM AMEMBASSY KUALA LUMPUR  
TO RUEHC/SECSTATE WASHDC 6688  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASH DC  
RUCPDOG/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 KUALA LUMPUR 000930

SIPDIS

STATE PASS USTR FOR B. WEISEL AND J. JENSEN  
STATE PASS USDA/FAS FOR ITP/AAD  
TREASURY FOR OASIA AND IRS  
COMMERCE FOR 4430/MAC/EAP/BAKER

E.O. 12958: DECL: 05/21/2016  
TAGS: [ETRD](#) [ECON](#) [EINV](#) [EFIN](#) [MY](#)  
SUBJECT: THE BUMIPUTERA POLICY: IMPLICATIONS FOR THE FTA

REF: A. KUALA LUMPUR 0797 B. KUALA LUMPUR 0613 C. KUALA LUMPUR 0331 D. 2005 KUALA LUMPUR 4080

Classified By: Ambassador Christopher J. Lafleur for reasons 1.4 b & d.

[1](#)1. (C) Summary: Malaysia's bumiputera policy provides socioeconomic support for ethnic Malays and other indigenous groups with the goal of raising the standard of living for all Malaysians.  
[1](#)2. (C) The bumiputera policy will be a critical factor in our upcoming negotiations on a free trade agreement (FTA) with Malaysia. The new National Economic Policy - Now 35 Years Old

-----  
[1](#)3. (U) In 1969, Malaysia experienced racial riots that became a watershed in the country's political and social development. In 1971, in response to the riots, the government introduced the New Economic Policy (NEP).  
[1](#)4. (U) An important characteristic of the NEP was that it was a government policy statement, not a piece of legislation. The Second Malaysia Plan (1966-1970) was the first plan to be formulated under the NEP.  
[1](#)5. (U) In 1991, the National Development Policy (NDP) replaced the NEP, and in 2000 the National Vision Policy (NVP; also known as Vision 2020) replaced the NDP.  
[1](#)6. (SBU) Today at the beginning of the Ninth Malaysia Plan (9MP; see Ref A), the goals of the NEP remain unmet. According to 9MP statistics, the NEP has not been fully implemented.

-----  
[1](#)7. (SBU) Prime Minister Abdullah announced the new Ninth Malaysia Plan (9MP) at the end of March 2006. As reported Ref A, 9MP largely carries on the policies of the previous plans.  
[1](#)8. (SBU) The third of the five "thrusts" of the Ninth Malaysia Plan is "to address persistent socio-economic inequalities constructively and to ensure that the business environment remains competitive and attractive." The Business - As Usual

-----  
[1](#)9. (C) As noted in paragraph 4 above, much of the implementation of the bumiputera policy is carried out through the day-to-day work of Malaysians.  
[1](#)10. (C) For example, when Bank Negara Malaysia (BN; the central bank) audits foreign financial institutions in its role as a regulator, it checks to see if they are complying with the bumiputera policy.  
[1](#)11. (C) On a broader level, when the Ministry of Domestic Trade and Consumer Affairs (MDTCA) drafted new regulations governing the distribution of goods, it took into account the bumiputera policy.  
[1](#)12. (C) The effort to comprehensively implement bumiputera priorities has fostered government micromanagement that penetrates almost every nook and corner of the economy. Exceptions Prove the Rule

-----  
[1](#)13. (C) There are honest business people, including foreign investors, who are not discouraged by the need to deal with the bumiputera policy.  
[1](#)14. (SBU) It is significantly easier for export oriented and high tech firms to do business in Malaysia. Export oriented manufacturers can work around the bumiputera policy. Why Rock the Boat?

-----  
[1](#)15. (C) Given the over-riding political importance of the bumiputera policy, why would Malaysian leaders agree to enter into FTA negotiations, which would require the removal of the policy?  
[1](#)16. (C) The Ninth Malaysia Plan also cites growing competitive pressures: "The core NEP, NDP and NVP objectives ( remain. However, the circumstances have changed. Let's Make A Deal

-----  
[1](#)17. (C) The bumiputera policy will be a critical and omnipresent factor in our upcoming negotiations on a free trade agreement with Malaysia.  
[1](#)18. (C) Bank Negara's racial hiring quotas in the financial services provide an example. So long as the central bank continues to use its influence to ensure that the bumiputera policy is implemented, it will be a critical factor.  
[1](#)19. (C) Where feasible, U.S. requests for changes should be linked to Malaysia's obligations under the WTO and other international agreements, which require the removal of the policy.  
LAFLEUR